

Guidelines for Gathering Information about the External Auditor

Clause 49 of the listing agreement with stock exchanges empowers the audit committee the authority to appoint, reappoint, replace or remove the external auditor. This document provides a number of questions that may be helpful to the audit committee in gathering useful information about the external auditor. Of course, this list of questions is not intended to cover all of the questions to which the audit committee may need answers. Company management, which works most closely with the external auditor, should play a significant role in interviewing the external auditor and may take the lead on compiling information for the audit committee to consider.

Independence and quality control

- What are the firm's processes for addressing compliance with independence requirements and freedom from conflicts of interest?
- What are the firm's processes for addressing compliance with professional standards (e.g., peer or practice review)?
- What is the firm's process for dealing with potential conflicts of interest resulting from services provided to other clients or competitors of the company?
- What is the firm's philosophy regarding non-audit services and their effect on independence?
- What is the firm's rotation policy with respect to partners and managers?
- How are partners supervised and evaluated?
- How will the firm's senior management be involved in the supervision and oversight of services provided to the company?

Firm and industry capabilities

- What is the firm's position in relation to its competitors, including size, number of professionals, quality measures, and similar factors in the company's key markets?
- Does the firm have offices in the company's key locations? If not, how will the services be delivered at these locations?
- How does the firm manage consistent delivery of services throughout the world?
- Does the firm use other firms to perform audit services in certain countries? If so, how are such firms supervised?
- What are the firm's capabilities with respect to non-audit services such as tax, merger and acquisition, information systems, human resources, actuarial, and other consultative services?
- What is the firm's experience and acknowledged expertise in the company's industry?
- What is the engagement team's depth and breadth in the company's industry?
- To the extent not precluded by an obligation of confidentiality, please indicate which of the firm's audit and non-audit clients are in the company's

Engagement team

- Who are the key members of the engagement team, including those in international locations?
- What is the professional background of the key members of the engagement team, including partners, managers, and senior staff?
- What are the roles and responsibilities of key members of the engagement team?
- How will the engagement team be structured and managed? Specifically address management and oversight of the engagement in international locations.
- How will engagement hours be allocated among the company's business units?
- How will hours be allocated among the engagement team? Indicate hours allocated among each level (partner, manager, senior staff) by significant location or business unit.
- What is the commitment of key engagement team members to serving the company? What is the process for replacing key members of the engagement team should the need arise?

Communications and service approach

- How will the firm provide accessibility of top engagement personnel to the company's audit committee and management?
- What will be the firm's approach in communicating with the audit committee? How often will the firm engage in formal communication with the audit committee, and what types of issues are likely to be communicated?
- How will the firm assist the audit committee in fulfilling its responsibilities for financial reporting and GAAP/SEBI compliance?
- What approach will the firm use in making recommendations to management either formally (e.g., management or commentary letter) or informally?
- What is the timeline for performing key audit activities?
- How and when will updates regarding the progress and results of audit procedures be communicated to management and the audit committee?
- How does the firm monitor and report client satisfaction to management and the audit committee? How are client service issues addressed and resolved?

Engagement planning and risk assessment

- What is the firm's approach for assessing risk, and how does the firm's assessment of risk affect the audit procedures performed?
- How will the firm's audit approach be tailored to the company's specific needs?
- How will the firm address complex accounting and auditing issues that may require the use of specialists (tax provisions, business combinations, derivatives, pensions, etc.)?
- How will the firm's evaluation of internal controls affect the audit plan and the procedures performed?
- What will be the scope of procedures at interim reporting periods?
- How will the firm coordinate with the company's internal audit team to develop a collaborative audit plan and minimize duplication of effort?

Consultation and technical matters

- What is the consultation process for resolving difficult or controversial accounting and tax issues (both Indian and international), with specific focus on the engagement team's role in the process?
- What is the role of the company's management in the consultation process?
- Are decisions regarding technical accounting and other matters bound by positions taken in audits of other clients?
- What authority will the engagement team have to resolve issues? What issues will require national office consultation?
- What is the firm's process for providing training and technical updates to partners, managers, and professional staff?
- How will the firm update the company regarding emerging accounting, tax, or other issues?
- What is the firm's involvement in various policy and rulemaking bodies?
- Has the firm taken any recent positions relative to the ICAI or other regulatory body or issues that could be viewed as significant or controversial with respect to the businesses in which the company operates?

Fee structure

- What are the firm's estimates for professional hours and the average billing rates on which fee estimates are based?
- What services are included in fee estimates? Will such services include training on industry matters, current accounting developments, and similar topics to the company's management and audit committee?
- What process is used to determine when services are not covered in base fee estimates and should be billed separately?
- What billing rates will be used for services not covered under the base fee estimates?

Technology and value-added audit benefits

- How will the firm use technology to provide value-added audit services to the company?
- What benefits and value-added services can the company expect to receive from the firm's service approach?
- What products and services will be provided in connection with base services and fees (e.g., publications, access to online resources with technical accounting, professional literature and/or best practices information)?

Auditor change and transition

- What is the firm's detailed transition plan for effecting the change from the company's current independent accountants?
- What company resources will be required in connection with the transition of the firm to the new audit firm?
- What is the firm's plan for completing its procedures for the upcoming interim reporting period?

To explore these ideas further, contact your

Lead Client Service Partner

or

Abhay Gupte

Director

Deloitte Center for Corporate Governance, India

Tel.: + 91 (22) 6681 0600

E-mail: agupte@deloitte.com

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